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RR RUEHBI RUEHCI RUEHCN RUEHDE RUEHGH RUEHLH RUEHPW

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R 090236Z DEC 09 ZDS ZUI RHSD #0042

FM AMEMBASSY COLOMBO

TO RUEHC/SECSTATE WASHDC 0950

INFO RUEHBJ/AMEMBASSY BEIJING 1258

RUEHKA/AMEMBASSY DHAKA 2144

RUEHIL/AMEMBASSY ISLAMABAD 9178

RUEHKT/AMEMBASSY KATHMANDU 7423

RUEHNE/AMEMBASSY NEW DELHI 3576

RUEHGP/AMEMBASSY SINGAPORE 5794

RUEHCN/AMCONSUL CHENGDU 0005

RUEHCG/AMCONSUL CHENNAI 9738

RUEHDE/AMCONSUL DUBAI 0189

RUEHGZ/AMCONSUL GUANGZHOU 0005

RUEHKP/AMCONSUL KARACHI 2622

RUEHCI/AMCONSUL KOLKATA 0482

RUEHLH/AMCONSUL LAHORE 0111

RUEHBI/AMCONSUL MUMBAI 7029

RUEHPW/AMCONSUL PESHAWAR 0394

RUEHGH/AMCONSUL SHANGHAI 0004

RUCPDOC/DEPT OF COMMERCE WASHDC

RULSDMK/DEPT OF TRANSPORTATION WASHDC

UNCLAS SECTION 01 OF 02 COLOMBO 001125

SENSITIVE

SIPDIS

DEPARTMENT FOR SCA/INSB

E.O. 12958: N/A

TAGS: [CE](#) [ECON](#) [ETRD](#) [EINV](#) [FAIR](#) [ELTN](#) [CH](#)

SUBJECT: HAMBANTOTA INTERNATIONAL AIRPORT: INCREASING CHINESE INVOLVEMENT IN SRI LANKAN INFRASTRUCTURE

REF: COLOMBO 01007

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¶11. (SBU) Summary: The Government of China is constructing an international airport in conjunction with the large Hambantota port. Hambantota is located in the rural South of Sri Lanka, which also happens to be President Rajapaksa's home region and political base. China Harbor Ltd. is engaged in final negotiations with the Government of Sri Lanka for the contract to construct Hambantota International Airport. Negotiations should be completed by mid-December. Full scale construction may begin in early January 2010 with the project completed sometime in 2011. The airport project will be wholly funded with a Chinese EXIM bank loan worth \$190 million USD with concessional interest rates and a 40 year repayment schedule. Over the next 5-10 years, Hambantota airport is unlikely to turn a profit. Incoming passenger flights will be on a charter basis only. The GSL and AASL would like to develop the airport into a regional air cargo hub and the airport has been designated as a tax free zone for this purpose. Although the economic viability of the airport is questionable, the project will increase Chinese influence, provide fat construction contracts for Chinese companies, and augment Chinese control of Sri Lankan infrastructure. End Summary.

CHINA FINANCES AN INTERNATIONAL AIRPORT IN RURAL SRI LANKA

¶12. (SBU) Hambantota is a rural area in the south that is 4-5 hours drive away from Colombo. The Government of Sri Lanka hopes that the Hambantota port (also built with Chinese assistance) and planned manufacturing zones will spark the development of Hambantota as a regional transportation hub. Hambantota is also President Rajapaksa's home region and his political base, which would certainly benefit from the increased employment opportunities afforded by the Hambantota projects.

13. (SBU) Sri Lanka has broken ground for the Hambantota International Airport, the country's second international airport. Preliminary designs for the airport have been completed and the Ministry of Ports and Aviation (MoPA) and Airport and Aviation Services (Sri Lanka) Limited (AASL), in theory, are looking for interested contractors to submit detailed design plans and construction proposals. In practice, China Harbor Limited has the inside track for construction of the airport. The company is in final negotiations with the Government of Sri Lanka and a contract to begin construction of the airport should be completed in mid-December. The MoPA hopes to see construction begin in early January 2010 with the project completed sometime in 2011. This is an ambitious target date which may not be met if airport construction slows for any reason.

14. (SBU) The airport project will be wholly funded with a US \$190 Million Chinese EXIM bank loan with concessional interest rates and a 40 year repayment schedule. Once completed, the airport will be managed by AASL; however, AASL will consider potential joint ventures with domestic or international companies. Chinese companies have not yet expressed interest in airport management of Hambantota. Initially, one runway, capable of handling take-offs/landings from Airbus A380s, will be constructed along with a passenger and cargo terminal and requisite support facilities. According to MoPA, there is ample space to construct a second runway if needed. 850 hectares have been allocated for the new airport, with additional 1,200 hectares held in reserve for future airport expansion.

ECONOMIC VIABILITY IS IN QUESTION

15. (SBU) Over the next 5-10 years, MoPA and AASL do not

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anticipate the Hambantota airport turning a profit. Initially, incoming passenger flights will be on a charter basis only. The GSL and AASL would like to develop the airport into a regional air cargo hub and Hambantota has been designated as a tax free zone for this purpose. The MoPA is in deep negotiations with at least two international cargo handlers to base their regional hubs out of Hambantota. To date, Chinese airlines and cargo carriers have not expressed significant interest in making Hambantota a regional hub or establishing passenger routes to/from Hambantota although MoPA is optimistic that this will eventually occur. The MoPA is also looking at ways to integrate the airport with the Port of Hambantota, and feasibility plans are being developed to utilize the airport for the transport of bulk cargo brought by ship to Hambantota.

GSL JUSTIFICATION FOR A SECOND AIRPORT

16. (SBU) According to the MoPA and AASL, construction of the Hambantota airport is necessary given the need to have an alternate landing facility for international flights if diverted from Bandaranaike International Airport north of Colombo. Current plans call for diverting international flights to southern India in the event of an emergency.

Note. It is not clear why the GSL did not expand a regional airport near a population center for this purpose. End Note.

The GSL also envisions utilizing the Hambantota airport as a base of operations for aviation and maritime rescue operations as well as conducting ship to shore transfers of crews anchored near the port. The GSL plans to integrate the airport with the Hambantota master plan with the extension of the southern highway and railway.

17. (SBU) Comment: Plans to build the Hambantota airport are ambitious and the timeline for its completion very optimistic. With Chinese assistance though, this is a realistic goal for the GSL and the MoPA. The Chinese have a strangle hold on construction of the airport and have added leverage for the project due to Chinese EXIM bank financing.

While Chinese businesses have not yet expressed interest in joint management of the airport or in establishing air links to the airport, they will have preference and an inside track should they decide to throw their hats into the ring.

Coupled with Chinese involvement in the Port of Hambantota, infrastructure development projects within greater Hambantota, and involvement in construction projects within Hambantota proper, Chinese interests have a lock on influence with the GSL for the foreseeable future. Chinese efforts in Hambantota are in line with robust aid and development assistance in other areas of Sri Lanka. It remains to be seen whether Chinese involvement ends when a project does or whether Chinese businesses will then pick up the slack and fill the void. End Comment.

FOWLER